

85th Legislative Session – 2010

Committee: Joint Appropriations

Thursday, January 21, 2010

P - Present
E - Excused
A - Absent

Roll Call

P Ahlers
P Burg
P Bartling
P Dennert
P Hundstad
P Wismer
P Novstrup (Al)
P Brown
P Carson
P Deadrick
P Peters
P Wink
P Haverly
P Putnam
P Hunhoff (Jean), Chair
P Tidemann, Vice-Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Senator Jean Hunhoff.

Board of Regents

Mr. Terry Baloun, President of the Board of Regents (BOR), introduced the board members present at the meeting – **Dr. Kathryn Johnson**, Vice President; **Mr. James Hansen**, Secretary; **Ms. Melanie Jeppesen**; **Mr. Harvey Jewett**, and **Mr. Randy Scheafer**. Distributed to the committee was a budget hearing schedule (**Document #1**) and the Fiscal Year 2011 Budget Hearing PowerPoint presentation (**Document #2**).

Mr. Baloun stated the five highest priorities of the BOR. They include:

- Build the public universities' research enterprise and contribute to South Dakota's economic development;
- Grow enrollment to meet workforce demands;
- Graduate and retain more students in South Dakota;
- Manage tuition increases to keep tuition and mandatory fees affordable for students and their families; and
- Improve academic quality and student performance.

The total FY11 budget for the BOR is \$652,763,126 comprised of \$170,902,101 in state general funds, \$15,901,864 in HEFF funds, \$1,718,043 from the Office of School and Public Lands, \$151,941,885 in tuition and fees, \$28,840,573 in room and board, \$124,697,663 in other funds, \$10,859,472 in federal appropriated funds, and \$147,901,525 in federal restricted funds. The state investment of \$170.9 million leverages \$652.8 million in total spending.

In FY08, the state appropriation per full-time equivalent (FTE) student at the all public postsecondary institutes was \$5,025. This amount is lower than the surrounding states and the national average of \$7,059. Declining state support increases student tuition and fees. Mr. Baloun stated that the state support for a South Dakota public university student dropped from 58% to 45% in ten years.

Senator Jean Hunhoff requested a list detailing the uses of each tuition dollar.

Representative H. Paul Dennert requested that the BOR compare the appropriation per FTE and the net tuition revenue per FTE in South Dakota to the nation.

Since FY99, the state funded FTE has remained fairly constant at slightly under \$2,500 per FTE. At the same time, student headcount has increased 24% and federal funds have increased.

Over the past ten years, the majority (\$38,810,727) of the general fund increase has gone towards salary policy. New investments have received \$15,696,625, maintenance and repair received \$4,193,594, and student investments received \$1,943,848.

Mr. Baloun said that the institutional facilities have a total plant value of more than \$1.4 billion. The BOR was able to obtain a reasonable insurance policy to cover the buildings. Currently, 20% of the student tuition is dedicated to the HEFF fund for the purpose of building and maintaining academic facilities. All residential facilities are built and maintained with rent revenues. The student unions and wellness facilities are built and maintained with mandatory student fees. Mr. Baloun noted that South Dakota is the only state in the region that pays for capital debt service and maintenance and repair with student tuition.

The three university centers are supported entirely by student tuition and fees. Except for state assistance for the construction of the University Center in Sioux Falls, the three university centers pay for construction and maintenance and repair of all the buildings.

Senator Jeff Haverly requested the BOR provide a breakdown of funding sources for the university centers including academic expenses, facility expenses, and administration.

Representative J.E. “Jim” Putnam requested information supporting the statement that the students attending the university centers are non-traditional students.

Mr. Baloun informed the committee of four spending authorization bills submitted this legislative session. The bills include:

- House Bill 1025 – motor pool building at South Dakota State University (SDSU) in the amount of \$234,300 to be paid with parking fees;
- House Bill 1026 – Phase II of the electrical engineering and computer science building at SDSU in the amount of \$5,125,000 to be funded by donations;
- House Bill 1027 – Mc Crory Gardens Visitor Center at SDSU in the amount of \$4 million; and
- Senate Bill 26 – Joseph H. Barnett Center addition at Northern State University in the amount of \$3.2 million to be funded by donations.

The Sioux Falls School District plans to develop a project-based learning high school which will teach project-based courses. Discussions have involved the 50,000 square feet of space that the University Center has under a long-term lease at Southeast Technical Institute. The Sioux Falls School District would pay about \$1.5 million for equity in the facility. To replace the leased space, an addition or new space would be created on the North campus of the University Center at a total cost of \$10.5 million. Bonds to support the \$8,970,000 in construction costs would be repaid with HEFF, private, or other funds.

In response to Senator Cory Brown’s question, Mr. Baloun stated, that the University Center’s lease would expire in 8 – 10 years.

Mr. Baloun reminded the committee that the BOR’s base budget was cut by \$3,602,998 in FY10. Currently, students pick up 55% of the costs of public higher education in South Dakota.

Dr. Kathryn Johnson stated that research is fundamental to education and economic growth. Total expenditures for research contracts and grants have increased from \$33.8 million in FY2000 to \$86.3 million in FY2009, which is a 155% increase in expenditures. On average, grant and contract expenditures have increased 11% each year. At the same time, research and development expenditures at the state universities are below most surrounding states.

In FY09, a state investment of \$600,000 resulted in \$15,672,301 in EPSCoR research awards from five federal agencies, part of an overall \$20 million 5-year EPSCoR award. The federal research grants received came from the National Science Foundation (\$6,802,143), the National Institute of Health (\$6,730,103), the Department of Defense (\$575,055), NASA (\$1,550,000), and the Department of Energy (\$15,000). Dr. Johnson noted that for every \$1 the state invested, it was able to leverage \$26.12 in return.

The 2010 Research Centers are associated with essentially all state public universities. The state investment of \$18.3 million garnered \$68.7 million in federal, private, and other state revenue. Through December 2009, the 2010 Research Centers had an estimated state economic impact of \$125 million.

Senator Dan Ahlers asked about the positions funded with research grants. Dr. Johnson responded that the position would be eliminated when grant funding ends. However, there has not been a problem in maintaining grants to keep positions filled.

Representative Deb Peters asked how the royalty payments are accounted. **Dr. Jim Abbott**, President of the University of South Dakota (USD), said the royalties go back to the university that has the patent and are included in the revenue base. Most of the royalties are invested back into research.

Representative Peters requested a list of all the royalty payments for each university.

The BOR requested \$2,396,619, 10.5 faculty FTE, and 16 graduate assistant FTE for the development of a Ph.D. in physics program. The Governor proposed partial funding of \$970,000 and 17.0 FTE for FY11. To start the program, USD, SDSU, and SDSM&T have agreed to redirect funding and grants totaling \$614,700. Ms. Johnson stated that funding for the second year of the program in the amount of \$811,919 is necessary or the program is not viable.

In response to Representative Larry Tidemann's question, Ms. Johnson stated that there is no redirection of funds from the universities slated for FY12. The \$811,919 is needed in addition to the increase in the base budget.

Representative Dean Wink requested a list of the advanced degrees and participants over the past couple years.

Dr. Jack Warner, Executive Director of the BOR, said that South Dakota needs to increase the number of graduates by 411 per year to make the United States internationally competitive by 2025. Currently, South Dakota has experienced a record high enrollment at the state universities – 33,779 students. The system headcount is up 8,060 students since 1997. This has occurred at the same time that K-12 enrollment numbers have declined.

Senator Haverly asked about a reason for the increase in graduation rates. Dr. Warner stated that many students transfer to the state public universities with prior credits. Transfer students are not counted in the original student base as first time freshman.

In response to Representative Quinten Burg's question, Dr. Warner said that the BOR will provide more information to the committee about the consistent retention rate of students at the state universities. Mr. Baloun stated that increased ACT score requirements and the Opportunity Scholarship have helped increase retention rates.

Representative Thomas Deadrick asked about current reciprocity agreements and future agreements. **Mr. Monte Kramer**, System Vice President for Administration, said that the only reciprocity agreement is with Minnesota. All Minnesota students that attend college in South Dakota pay 156% of the in-state rate. Mr. Baloun stated that the agreements are negotiated every two years. There are no immediate plans to expand the number of reciprocity states. Mr. Warner informed the committee that any expansion of reciprocity agreements would probably occur on a program basis to serve the needs of the state and students.

Representative Putnam asked about the future of maintenance and repair (M&R) for the university's buildings without the use of state general funds. Mr. Baloun said that the BOR is not trying to increase square feet. If a new building is needed, then after construction the old and replaced building is demolished. To keep M&R down, the BOR is generating about \$6.8 million in HEFF funds. Mr. Kramer added that most M&R projects are to remodel older facilities that were built in the 1940's and 1950's.

Senator Haverly requested the BOR provide references for all the graphs and charts listed in Document #2.

Dr. Warner said that the Opportunity Scholarship has improved retention rates and decreased the need for remedial course work.

Representative Deadrick requested a further breakdown of the students' ACT scores and GPA for each university.

South Dakota is the only system that tests all juniors in all basic skills with the Rising Junior test. South Dakota students are performing above the national mean in writing skills (66%), math (61%), reading (60%), and science reasoning (65%). The state has a 100% pass rate in audiology, clinical psychology, dental hygiene, occupational therapy, pharmacy, physical therapy, physician assistant, and speech/language pathology.

Response to Supplemental Questions:

What analysis is utilized in deciding to seek new programs in the face of budgetary shortfalls at the

state level?

Dr. Warner said that the university first must file an intent to plan a new program. If approved, the university develops a full plan that must be approved. The BOR works with the university to ensure the program is high quality. The factors that are essential to an approval of a new program are:

- Demonstrated student demand;
- Quality of the proposal;
- Demonstrated workforce need;
- Program cost and revenue generation projections;
- Relationship to institutional mission and priorities; and
- Necessary vs. unnecessary program duplication.

Supplemental Question:

We understand the Board of Regents is reviewing under-utilized programs. What is the status of this review?

Dr. Warner told the committee that in October 2009, the Board mandated a review of all associate and baccalaureate programs graduating 5 or fewer students per year and all graduate programs graduating 3 or fewer per year. Each university's faculty and academic administrators are conducting the review of any identified programs. Using selected criteria, each program will be assigned to one of the following categories:

- Retain because of critical need;
- Retain with further review required;
- Consolidate with another program on campus;
- Consolidate with another program(s) within the system; or
- Terminate. (Program will be phased out by suspending initial enrollment.)

Initial recommendation will be considered at the March meeting of the Regents.

In response to Representative Wink's question, Dr. Warner stated that the total cost of the program, including salary and facility space, is included in the evaluation.

Supplemental Question:

What is the percentage completion rate of online lessons? What are the Board's future plans in this regard?

In a comparison of the 12 most popular courses taken on-line vs. on-campus, there was a higher percentage of students that received unsatisfactory grades and withdrew from the course when taking on-line. The BOR is planning to address this issue by improving orientation materials, reinforcing unique aspects of the online learning environment, and offering introductory online learning courses. Dr. Warner said that this issue needs to be addressed because it is estimated that 15% to 20% of all

credits taken will be on-line.

Supplemental Question:

We are interested in the percentage of Opportunity Scholarship recipients who remain in South Dakota upon completion of their studies. Please review the status and preliminary results of the ongoing effort to determine this statistic.

Dr. Warner stated that the BOR conducted a graduation survey for the students that received an Opportunity Scholarship. There were 68% of the students employed or enrolled in graduate education in South Dakota, 71% of the students are employed in the state, and 66% are pursuing graduate work in the state.

FY11 Budget Request

For FY11, the Governor recommends a total budget of \$720,853,294 comprised of an increase of \$3,370,855 from general funds, an increase of \$34,755,015 in federal fund expenditure authority, an increase of \$29,964,298 in other fund expenditure authority, and a decrease of 25.2 FTEs.

Mr. Kramer explained the differences in the BOR FY11 requested budget and the Governors recommended budget, which are listed on page 41 of Document #2. Some of the differences include:

- Utilities – the BOR requested an increase of \$628,293 and the Governor recommended a decrease of \$12,912;
- Financial Support Staff - the BOR requested an increase of \$359,274 and 6.0 FTEs and the Governor recommended no increase in funding or FTEs;
- Quality Library Initiative - the BOR requested an increase of \$500,000 and the Governor recommended no increase in funding;
- System Ph.D. in Physics - the BOR requested an increase of \$2,396,619 and 26.5 FTEs and the Governor recommended an increase of \$970,000 and 17.0 FTEs;
- Performance Pool – the BOR requested no budgetary change and the Governor recommended a decrease of \$500,000; and
- Opportunity Scholarship - the BOR requested \$2,011,385 and the Governor recommended \$1,995,510.

Mr. Kramer told the committee that the BOR's budget will be short if the requested amount for utilities is not approved. Even with the energy cost reductions and lower energy costs, the BOR projections show a utilities shortfall of \$263,277 in FY10. With the additional budget cut last year, the total shortfall will be \$957,748.

Mr. Kramer said that the BOR has identified FY10 savings at SDSU of \$677,836 that the BOR is requesting be realigned to cover utilities at the state universities. The \$677,836 could be reallocated in FY11 to cover a major portion of the FY12 request of \$811,919 for the second year of the Physics Ph.D. program—leaving a balance of only \$134,083.

Senator Ahlers asked about the transfer of \$2.2 million out of personal services in FY09. Mr. Kramer distributed a handout entitled “FY2009 Excess PS – General Funds*” (**Document #3**). It was stated that only 1.5% of the total BOR budget was transferred. The bulk of the transfers were in the Agricultural Experiment Station’s budget.

Senator Ahlers commented that the agency should request the funds needed and not transfer funds at the end of the fiscal year. Mr. Kramer responded that 4-4.8 allows the BOR to transfer funds except between universities. He noted that the BOR has never had the utility shortfall funded in the last 10 years.

Mr. Kramer said that the FY03 utilized FTEs were 4,894.9 and the FY11 recommended budget is 5,600.8 FTEs. There has been an increase of 705.9 FTEs since FY03. About 89 FTE relate to the general fund. The remaining FTEs are funded by grants and contracts, federal appropriations, tuition and fees, room and board, and auxiliary enterprise and sales and services. Only 44% of public university system positions and salaries are paid by general funds. About 85% of the FTE growth is related to grants and contracts, or supported by student enrollment growth.

Distributed to the committee was a handout outlining the Board of Regents travel budget. (**Document #4**)

South Dakota State University

Dr. David L. Chicoine, President of South Dakota State University (SDSU), introduced that staff members present at the meeting - **Dr. Laurie Stenberg Nichols**, Provost and Vice President for Academic Affairs; and **Mr. Wes Tschetter**, Assistant Vice President of Finance and Business. Distributed was an SDSU brochure. (**Document #5**)

Dr. Chicoine discussed the four strategic goals of SDSU and some of the performance indicators that measure each goal’s growth. The strategic goals include:

1. Enhancing academic excellence;
2. Fostering economic growth;
3. Expanding the reach of the university; and
4. Establishing a sustainable financial base.

Representative Dennert requested that SDSU provide a breakdown of the in-state and out-of-state donors.

Dr. Chicoine informed the committee that SDSU has been recommended for 10-year re-accreditation from the Higher Learning Commission following a November 2009 site visit. There are 15 programs that are under study to determine if an accreditation is needed. Dr. Chicoine stated that SDSU would like to apply for accreditation for 5 of the 15 programs in FY11.

South Dakota State University enrolled a record 12,376 students in the fall 2009 semester. Graduates of South Dakota high schools comprise 67 percent of the student body at SDSU. The growth rate for undergraduate students from 2008 to 2009 was 2.5%.

In response to Representative Burg's question, Dr. Chicoine stated that of the 12,376 students at SDSU, about 11,000 take courses on-campus and about 1,200 take courses either on-line or at the university centers.

A wireless campus has been funded by student fees. At a cost of about \$120 per student per year, SDSU has been able to obtain the Active Learning Cloud. The Active Learning Cloud will create environments that promote critical thinking, problem-solving, collaborative learning and 21st century literacy (information, digital and visual) among students and faculty. The environment is enabled by cloud computing — networked systems that support anytime-anyplace applications. Beginning in summer 2009, the AL

Cloud project has made progress in these areas:

- Invested nearly \$1.5 million to date;
- Created 22 fully enhanced classrooms with wireless access, touch screens and audio/visual equipment;
- Facilitated training for 330 faculty members;
- Enabled 74 courses across 14 programs to utilize new instructional technology; and
- Installed an additional 409 access points with another 500 planned.

Dr. Chicoine stated that research drives innovation and technology-based economic development. SDSU is the only Carnegie Foundation high-research university in the state. There were 557 grant proposals submitted by faculty in FY09, which is a 22% increase from FY08. The grant and contract awards for FY09 total \$50.6 million – an increase of 31% from FY08. Research funded by private and non-profit sources increased 43% in FY09 to \$3.3 million.

For FY11, the Governor recommends a total appropriation of \$234,016,875 and 1,807.3 FTEs. The recommended changes include a \$512,839 increase in general funds, \$24,027,668 increase in federal fund expenditure authority, and \$19,961,930 increase in other fund expenditure authority. The FTE level is recommended to increase by 67.0.

Dr. Chicoine said that three of the university's FY11 priorities include competitive salaries, utilities, and M&R of academic buildings. In FY10, state appropriations for utilities are forecast to fall \$1.1 million short of actual utility costs. A larger shortfall is forecast for FY11. Academic programming funds are re-allocated to cover the shortfalls in state appropriations for utilities. Academic buildings have a replacement value of \$355.5 million, requiring \$7.11 million for maintenance and repair funds to meet industry standards. Student fees provide \$3.11 million, leaving a \$4 million gap.

South Dakota State University received \$3.7 million in federal stimulus money. The stimulus money

was used similar to general funds.

Senator Bartling asked about the amount of the South Dakota Tourism grant for the 2010 Centers. Dr. Chicoine stated that he will report back to the committee.

Senator Hunhoff and Representative Peters requested that SDSU provide information for all the current grants including amount, FTEs, end dates, and source of funds.

University of South Dakota

Dr. James Abbott, President of the University of South Dakota, introduced **Dr. Chuck Staben**, Vice President for Academic Affairs; **Mr. Rich Vandenhaul**, Vice President for Finance and Administration; and **Dr. Rodney R. Parry MD**, Sanford School of Medicine.

For the FY10 budget, USD cut \$2.9 million to address the structural deficit and fund permanent obligations in the state. Dr. Abbott stated that USD also froze 19 vacant positions, eliminated 14 filled positions, reduced hours for two positions, and cut \$383,079 from the operating budget.

The University of South Dakota has seen success in enrollment trends, graduation trends, and retention rates. Over the past seven years, fall enrollment is up 21.5% and student FTEs are up 12.7%. The university is averaging 4% more graduates each year.

The retention rate improved from 68.3% to 72.5%. Dr. Abbott said that USD has spent lots of time and effort in advising students. He reminded the committee that the first floor of the library was remodeled last year to house many learning tools for the students.

The University of South Dakota had a 21.6% enrollment growth in four year for students taking courses through distant learning and at the University Centers.

Dr. Abbott stated that Dr. Yuyu Sun has developed an infection-fighting invention that is licensed to Antimicrobial Technologies Group (ATG) for commercialization. The invention fights bacteria and viruses by adding it to clothing, paint, medical and dental tubing, etc. Dr. Sun has received \$925,000 in research funding in 2 ½ years.

Dr. Abbott stated that USD has received many grants for research and economic development. The neuroscience and behavioral research received \$14 million in grants to be spent over four years. A grant totaling \$3.8 million has been awarded to USD for underground physics research to be spent over three years. The first Integrative Graduate Education and Research Traineeship (IGERT) program in South Dakota was awarded to USD with a grant totaling \$3 million over five years to support development of solar devices. The College of Arts and Sciences awards have increased three-fold in four years to \$8.4 million.

One priority for FY11 is the development of a Ph.D. program in physics. This would be a collaborative effort among three state universities to develop a research workforce for the DUSEL. To implement the program, \$970,000 in state general funds is needed.

Dr. Abbott noted other areas of need for FY11. They include:

- Investments to maintain salary competitiveness;
- Increased funding for maintenance and repair of academic buildings;
- Escalating accreditation requirements for the dental hygiene program (\$157,371 per year); and
- Additional funds for research (scientists, facilities, and equipment).

Representative Burg asked about the cost to move to Division 1. Dr. Abbott said that there was an increase of more than \$250,000 in university funds from the FY07 budget to the FY10. The rest of the funds needed were obtained from guaranteed games.

USD – Sanford School of Medicine

The Governor recommends a total appropriation of \$54,310,314 and 372.9 FTEs for FY11. The recommended changes include an increase of \$57,913 in general funds, \$1,599,802 in federal fund expenditure authority, and \$30,568 in other fund expenditure authority.

In response to Representative Tidemann's questions, Dr. Rodney Parry stated that the accreditation standard requirements are almost grueling. Effective January 2009, the dental hygiene program needs to change the faculty to student ratio from 1:6 to 1:4. This is an additional cost of \$157,371 per year; which is equal to an additional \$990.75 per dental hygiene student per semester.

Representative Tidemann asked about the three areas of needed improvement for the medical accreditation. Dr. Parry responded that there are 130 standards that must be met to obtain medical accreditation. The three areas that need improvement are:

1. An external review of the masters and Ph.D. programs that are currently done in-house;
2. Student grading on campus; and
3. Identify the stage when each topic will be taught for each medical field.

Senator Ahlers asked about Dr. John Green's position with the Center for Disabilities. Dr. Abbott responded that as of January 1, 2010, Dr. Green is no longer employed by the system. He will provide more information if needed.

MOTION: ADJOURN

Moved by: Deadrick

Second by: Wink

Action: Prevailed by voice vote.

Lisa Shafer
Committee Secretary

Jean M. Hunhoff, Chair